

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended February 28, 1978

(Unaudited)

1. CAPITAL REDUCTION SUBSEQUENT TO FEBRUARY 28, 1978

On April 7, 1978, pursuant to shareholder resolution, the corporation:

- (a) changed its name to Radio IWC Limited
- (b) capitalized \$2,811,548 of its retained earnings (which for tax purposes represented capitalization of 1971 capital surplus on hand);
- (c) distributed \$1.40 per common share (total \$10,145,851) to its shareholders as a repayment of capital; and
- (d) consolidated its issued and unissued shares on a 1 for 10 basis.

As a result of such transactions there were outstanding at such date 724,703.7 common shares with a paid-up capital of \$454,149. The pro-forma summary financial position of the corporation, after giving effect to the above distribution of \$10,145,851, is as follows as at February 28, 1978:

Working capital	\$ 362,161
Fixed assets, net	1,686,041
Goodwill (all relating to continuing radio operations)	2,548,825
Other assets	351,724
Deferred income taxes	(125,900)
Shareholders' equity	<u>\$4,822,851</u>

2. OPERATIONS

The 1978 figures for continuing radio operations include the results of CILQ-FM, which commenced broadcasting on May 22, 1977.

Cable division operations included in the 1978 figures are for 5 months only, due to the sale of that division as at January 31, 1978.

Full provision for estimated operating losses in the current fiscal year of CFOX to September 15, 1977, the date of sale of the operating assets of CFOX, was included in the provision for loss on disposal of CFOX made at August 31, 1977.

3. COMPARATIVE FIGURES

Comparative figures in the consolidated statement of income for the six months ended February 28, 1977 have been restated to correspond with the presentation for the current year.

RADIO IWC LIMITED

Suite 3020
2 Bloor Street East
Toronto, Ontario M4W 1A8

Operating Subsidiaries

CFGM Broadcasting Limited
- CFGM-AM
- Q107-FM
Sarnia Broadcasting (1964) Limited

AR36

**RADIO
IWC
LIMITED**

(formerly IWC Communications Limited)
Name changed April 7, 1978

INTERIM REPORT

Six months ended
FEBRUARY 28, 1978

RADIO IWC LIMITED

(formerly IWC Communications Limited)

CONSOLIDATED STATEMENT OF INCOME

Six months ended February 28, 1978

(with comparative figures for 1977)

(Unaudited)	1978	1977 Restated - note 3
Radio division (continuing operations) (note 2):		(000's)
Revenue	\$1,728	\$1,161
Direct selling, programming, technical and administrative expenses, including depreciation of \$114,000 (1977 - \$54,000) and amortization of deferred costs of \$14,000 (1977 - nil)	1,534	912
	194	249
Cable division (sold on January 31st, 1978) (note 2):		
Revenue	1,052	1,123
Direct selling, programming, technical and administrative expenses, including depreciation of \$256,000 (1977 - \$266,000)	717	760
	335	363
Operating income before indirect administrative expenses	529	612
Indirect administrative expenses relating to the above	203	169
Income from above operations (note 2)	326	443
Loss from discontinued operations of Radio CFOX (note 2)	(234)	
Income from operations before interest income (expense)	326	209
Interest income (expense):		
On Global 1974 interest debentures	187	
On Global 1974 income debentures	153	
On bank deposit receipts	206	87
On borrowings	(86)	
	206	341
Income before income taxes and extraordinary items	532	550
Income taxes	248	190
Income before extraordinary items	284	360
Extraordinary items:		
Gain on disposal of cable division, less related income taxes of \$262,300	1,245	
Income tax reductions resulting from carry forward of prior years' losses	19	7
Net income for the period	1,264	7
	\$1,548	\$ 367
Net income per share (after reflecting 1 for 10 share consolidation on April 7, 1978 - note 1 (d)):		
Before extraordinary items	\$ 0.39	\$ 0.50
Extraordinary items	1.75	0.01
For the period	\$ 2.14	\$ 0.51

(see accompanying notes)

To the Shareholders:

Effective January 31st, 1978, the sale of IWC's cable division was concluded for \$5,341,000. The resulting after-tax gain was \$1,245,000.

In the accompanying statement of income the direct operating results of the cable division have been segregated. 1978 results are for five months to January 31, 1978 only, while the 1977 comparative figures are for six months of operations to February 28, 1977.

On April 7, 1978, IWC distributed a total of \$10,145,851 to its shareholders, by way of a repayment of capital equal to \$1.40 per outstanding share. This amount represented the excess cash available as a result of IWC's sale of its cable division, and the previous sale of its investment in Global Communications Limited.

In conjunction with the capital distribution, the company's name was changed to Radio IWC Limited, and the shares of the company were consolidated on the basis of one new share for each ten existing shares. Cheques and instructions for exchanging existing share certificates for new share certificates were mailed to all shareholders on April 7, 1978.

In the ongoing operations of the radio division, two changes of major importance occurred during the past year:

- CFGM's frequency change from 1310 to 1320, expanding its coverage area to embrace approximately 1,000,000 additional persons was completed on February 15, 1978;
- CILQ-FM commenced on-air broadcasting on May 22nd, 1977.

The impact of these changes will become more apparent in the last half of fiscal 1978.

We are pleased to report that bookings on CFGM and CHOK are substantially ahead of the same period of last year, and CILQ-FM has already captured an audience which makes it a major factor in the Toronto FM market.

ALLAN SLAUGHT
President

Toronto, Ontario
April 26, 1978

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Six months ended February 28, 1978

(with comparative figures for 1977)

(Unaudited)	1978	1977
Source of funds:		
Income before extraordinary items	\$ 284	(000's) \$ 360
Charges not affecting working capital -		
Depreciation	372	326
Amortization of deferred costs	14	
Deferred income taxes		83
Funds from operations	670	769
Sale of cable division		
Proceeds on disposal (\$5,341,000) less related costs of \$93,500 and income taxes of \$262,300	4,985	
Working capital deficiency of division at date of sale	325	
	5,310	
Increase of long-term debt		667
Income tax reductions resulting from carry forward of prior years' losses	19	7
	5,999	1,443
Application of funds:		
Additions to fixed assets -		
Radio division	145	489
Cable division	205	478
Deferred frequency change costs	3	59
FM station development costs deferred	16	20
Increase in other assets	369	1,046
Excess of funds provided over funds applied	5,630	397
Working capital (deficiency) beginning of period	4,878	(1,004)
Working capital (deficiency) end of period (note 1)	\$10,508	\$ (607)

RADIO IWC LIMITED

(FORMERLY IWC COMMUNICATIONS LIMITED)

1978 ANNUAL REPORT

Directors and Officers

RADIO IWC LIMITED, SUITE 3020, 2 BLOOR STREET EAST, TORONTO, ONTARIO M4W 1A8

Directors

J. Trevor Eyton, Q.C., *Partner, Tory, Tory, DesLauriers and Binnington*
(*Barristers and Solicitors*)

Donald H. Gordon, *Vice-President, Corporate Development and Secretary, Allpak Products Limited*
(*Diversified Holding Company*)

Richard W. Ivey, *Associate, Tory, Tory, DesLauriers and Binnington*
(*Barristers and Solicitors*)

Joseph J. MacBrien, *Vice-President, Johnston MacBrien Limited*
(*Investment Counsel*)

Ian H. McLeod, *President, Allpak Products Limited*
(*Diversified Holding Company*)

Peter J. Nadler, C.A., *Partner, Nadler, Gould & Company*
(*Chartered Accountants*)

Allan Slaight, *President and Chief Executive Officer of the Corporation*

Officers

Allan Slaight, *President and Chief Executive Officer*

J. Trevor Eyton, Q.C., *Secretary*

G. Elizabeth Hannan, R.I.A., *Treasurer*

Auditors

Clarkson, Gordon & Co., Toronto, Ontario

Solicitors

Tory, Tory, DesLauriers & Binnington, Toronto, Ontario

Transfer Agents

Guaranty Trust Company of Canada, Toronto, Ontario

Stock Listing

Toronto Stock Exchange

Operating Subsidiaries

CFGM Broadcasting Limited

Sarnia Broadcasting (1964) Limited

Radio IWC Limited is a constrained share Corporation at least 80% of the shares of which must be beneficially owned by persons who are Canadian citizens or who are corporations controlled in Canada.

President's Report

RADIO IWC LIMITED (formerly IWC Communications Limited)

Net income before extraordinary items was \$270,743 compared to \$491,205 in the previous year. Net income after extraordinary items was \$1,655,706 compared to \$2,820,294 in the previous year.

A number of major changes in IWC's investments in the communications industry over the last two fiscal years makes direct comparison of operating results for these years difficult. Among others, two major factors affecting a comparison of income before extraordinary items in the two years were the following:

- a) The 1977 results include the operations of the cable division for the full year, while the 1978 results include the operations of the cable division for only five months to the date of sale.
- b) Interest income (net) was reduced from \$445,437 to \$203,485 due to, among other things, the capital distribution to shareholders referred to below.

Significant Transactions During The Year:

The attached financial statements reflect the results of certain transactions which occurred during the year:

1. Sale of Cable Division

Effective January 31, 1978 the sale of IWC's cable division to Credit Valley Cable TV/FM Limited was concluded for net after-tax proceeds of \$4,990,000.

2. Distribution to Shareholders and Corporate Name Change

On April 7, 1978 IWC distributed a total of \$10,145,851 to its shareholders by way of a repayment of capital equal to \$1.40 per outstanding share. This amount represented the excess cash available as a result of IWC's sale of its cable division and the previous sale of its investment in Global Communications Limited.

In conjunction with the distribution, the company's name was changed to Radio IWC Limited and the shares of the company were consolidated on the basis of one new share for each ten existing shares.

3. Sale of Radio CFOX Operations

The operating assets of Radio CFOX Inc. were sold on September 15, 1977. Full provision for loss was made in the 1977 fiscal year.

Ongoing Radio Operations

Our ongoing radio operations presently consist of CFGM-AM (Richmond Hill), CILQ-FM (Toronto) and CHOK-AM (Sarnia). These operations registered an 11.7% income gain over the previous year, despite higher operating costs.

CFGM's frequency change from 1310 to 1320 was completed in February, 1978 resulting in a substantially expanded coverage area. The investment in this facility is reflected favourably in the recent Fall BBM survey. This published survey indicates CFGM's audience increased by more than 12% over the last rating period.

CHOK continues to dominate the Sarnia market despite increased competition and its disaffiliation from the CBC Network. The CBC recently commenced broadcasting in the Sarnia market on its own FM station.

CILQ-FM has completed its first full year of operations and is now operating profitably. The results of the recently published Fall BBM survey indicate that this station increased its audience by more than 47% over the last rating period.

Important Current Developments

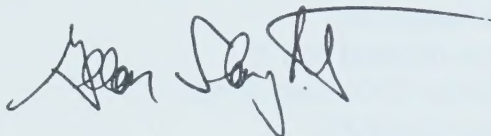
Early in the 1978 fiscal year certain major shareholders of IWC agreed to sell their shares to Selkirk Holdings Limited ("Selkirk"), subject to the approval of the Canadian Radio-television and Telecommunications Commission ("CRTC"). On December 28, 1977 the CRTC denied Selkirk's application to purchase the shares of IWC, indicating, amongst other things, that a sale involving the indirect transfer of the licence for CILQ-FM was premature. Accordingly, the principal shareholders of IWC decided not to solicit alternative outside purchasers for their shares at that time.

Subsequently, as a principal shareholder (13.8%) of IWC, I entered into an agreement with two of the other principal shareholders of IWC to purchase their shares (42.5%) for a cash price of \$8.25 per share. I have agreed that as soon as reasonably possible after the completion of this purchase, all other shareholders of IWC will be given the opportunity to dispose of their shares at the same price.

In a related transaction, IWC entered into an agreement to sell its Sarnia station, CHOK, to Richardson Broadcasting (Sarnia) Limited for a purchase price of \$1,400,000. This agreement may be cancelled by IWC at its discretion if the CRTC fails to approve my purchase of control of IWC.

Both of the foregoing agreements are conditional upon the approval of the CRTC and will be considered by the CRTC at a public hearing in Toronto commencing on March 6, 1979.

The interim report for the first quarter of fiscal 1979 is included. As evidenced by recent increased sales bookings, we are confident that our radio operations will register improved results during this fiscal year.



President

January 26, 1979

Consolidated Balance Sheet

RADIO IWC LIMITED (formerly IWC Communications Limited) (Incorporated under the laws of Ontario)

ASSETS	August 31	
	1978	1977
Current:		
Bank deposit receipts	\$ 46,860	\$ 4,650,000
Accounts receivable	813,914	908,217
Notes receivable (notes 3 and 7)	1,496,000	
Net assets of Radio CFOX sold, at net realizable value (note 4)		395,380
Deposits, prepaid expenses and other	40,398	96,711
Total current assets	<u>2,397,172</u>	<u>6,050,308</u>
Fixed, at cost (note 6)	2,667,205	8,729,481
Less accumulated depreciation	987,004	3,845,440
	<u>1,680,201</u>	<u>4,884,041</u>
Other:		
Excess of purchase price of shares and assets of subsidiaries over estimated fair value of underlying net tangible assets at dates of acquisition	2,548,824	3,876,610
Deferred FM station development costs (note 2 (d))	119,656	148,923
Deferred frequency change costs (note 2 (d))	179,797	186,429
Sundry other assets	21,030	63,370
	<u>2,869,307</u>	<u>4,275,332</u>
	<u>\$ 6,946,680</u>	<u>\$15,209,681</u>

LIABILITIES	August 31	
	1978	1977
Current:		
Bank indebtedness (note 7)	\$ 1,404,224	\$ 74,572
Accounts payable and accrued charges	398,921	589,362
Income and other taxes payable	180,338	143,466
Deferred cable television subscription revenue		364,634
Total current liabilities	<u>1,983,483</u>	<u>1,172,034</u>
Non-current obligation under lease (note 9 (a))	<u>50,000</u>	
Deferred income taxes	<u>5,000</u>	<u>616,900</u>
Shareholders' equity (notes 1 and 8):		
Capital –		
Authorized:		
1,000,000 shares without par value		
Issued:		
724,555.7 shares	454,148	7,788,452
Retained earnings	<u>4,454,049</u>	<u>5,632,295</u>
	<u>4,908,197</u>	<u>13,420,747</u>
	<u>\$ 6,946,680</u>	<u>\$15,209,681</u>

On behalf of the Board:

Allan Slaight, Director

J. Trevor Eyton, Director

Consolidated Statement of Income

RADIO IWC LIMITED (formerly IWC Communications Limited)

	Year ended August 31	
	1978	1977
	(reclassified – note 2 (b))	
Radio division:		
Ongoing operations (notes 2 (a) and 5) –		
Revenue	\$ 3,632,752	\$ 2,575,550
Direct selling, programming, technical and administrative expenses	2,987,709	2,129,579
Depreciation	252,926	124,634
Amortization of deferred costs	41,955	7,838
	<u>3,282,590</u>	<u>2,262,051</u>
	<u>350,162</u>	<u>313,499</u>
Loss from operations of Radio CFOX, including depreciation of \$9,090 (note 4)		<u>(325,022)</u>
Cable division (sold on January 31, 1978) (note 3):		
Revenue	1,051,901	2,330,211
Direct selling, programming, technical and administrative expenses, including depreciation of \$256,292 (1977 – \$565,504)	717,180	1,563,827
	<u>334,721</u>	<u>766,384</u>
Other operating income		<u>97,222</u>
Total operating income before indirect expenses	684,883	852,083
Indirect administrative expenses, including depreciation of \$5,834 (1977 – \$393)	376,628	433,615
Income from operations before interest income (expense)	<u>308,255</u>	<u>418,468</u>
Interest income (expense):		
On bank deposit receipts	527,377	172,502
On Global Communications Limited debentures		359,574
Amortized discount on notes (note 3)	26,000	
On long-term debt		(57,069)
On short-term bank borrowings (net)	(349,892)	(29,570)
	<u>203,485</u>	<u>445,437</u>
Income before income taxes and extraordinary items	511,740	863,905
Income taxes	240,997	372,700
Income before extraordinary items	<u>270,743</u>	<u>491,205</u>

	August 31	
	1978	1977
Extraordinary items:		
Gain on sale of cable television subsidiaries, less related income taxes of \$266,800 (note 3)	1,258,290	
Provision for loss (1978 – adjustment thereto) on sale of Radio CFOX, net of related income tax recoveries of \$444,000 (1978 – adjustment of \$12,564) (note 4)	11,365	(517,594)
Gain on disposal of interest in Global Communications Limited, less related income taxes of \$783,000		2,330,940
Recovery of final wind-up of former subsidiary, less related income taxes of \$10,000		31,343
Income tax reductions resulting from carry forward of prior years' losses (less, in 1977, write-off (\$78,000) of deferred income taxes recorded in a prior year)	115,308	484,400
	<u>1,384,963</u>	<u>2,329,089</u>
Net income for the year	<u>\$ 1,655,706</u>	<u>\$ 2,820,294</u>
Net income per share (724,555.7 shares outstanding after giving effect to 1 for 10 share consolidation on April 7, 1978):		
Before extraordinary items	\$0.37	\$0.68
Extraordinary items	<u>1.91</u>	<u>3.21</u>
For the year	<u>\$2.28</u>	<u>\$3.89</u>

Consolidated Statement of Retained Earnings

RADIO IWC LIMITED (formerly IWC Communications Limited)

	Year ended August 31	
	1978	1977
Retained earnings, beginning of year	\$ 5,632,295	\$ 2,812,001
Add net income for the year	1,655,706	2,820,294
	<u>7,288,001</u>	<u>5,632,295</u>
Less:		
Retained earnings capitalized during year (note 1)	2,811,548	
Costs (\$43,404) relating to capital distribution of \$10,145,851 to shareholders (note 1), net of related income tax recoveries of \$21,000	22,404	
Retained earnings, end of year	<u>\$ 4,454,049</u>	<u>\$ 5,632,295</u>

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of Radio IWC Limited (formerly IWC Communications Limited):

We have examined the consolidated balance sheet of Radio IWC Limited as at August 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at August 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 17, 1978.

CLARKSON, GORDON & CO.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

RADIO IWC LIMITED (formerly IWC Communications Limited)

	Year ended August 31	
	1978	1977
		(reclassified – note 2 (b))
Source of funds:		
Income before extraordinary items	\$ 270,743	\$ 491,205
Charges not affecting working capital –		
Depreciation	515,052	699,621
Amortization of deferred costs	41,955	7,838
Deferred income taxes	(120,900)	209,800
Funds from operations (notes 1, 3, 4 and 5)	<u>706,850</u>	<u>1,408,464</u>
Sale of cable television subsidiaries (note 3) –		
Net proceeds on sale, less related income taxes of \$266,800	4,990,200	
Working capital deficiency of division at date of sale	<u>325,690</u>	
	<u>5,315,890</u>	
Sale of Radio CFOX (note 4) –		
Net realizable value of non-current assets sold	21,856	386,185
Tax credits (charges) realized in year due to sale	(10,491)	195,000
Less funds applied to Radio CFOX operations during course of sale		(51,262)
	<u>11,365</u>	<u>529,923</u>
Net proceeds on sale of interest in Global Communications Limited, less related income taxes of \$783,000		5,829,440
Non-current obligation under lease	50,000	
Recovery on final wind-up of former subsidiary, less related income taxes of \$10,000		31,343
Current income tax reductions resulting from carry forward of prior years' losses	115,308	562,400
Total funds provided	<u>6,199,413</u>	<u>8,361,570</u>
Application of funds:		
Additions to fixed assets – radio division	287,306	983,349
– cable division	201,571	799,438
Deferred frequency change costs	3,469	92,956
Deferred FM station development costs	2,906	156,761
Increase in sundry other assets	491	30,243
Reduction in long-term liabilities		416,384
Distribution to shareholders as a reduction of capital	10,145,851	
Costs relating to above distribution to shareholders, net of related income tax recoveries of \$21,000	<u>22,404</u>	
Total funds applied	<u>10,663,998</u>	<u>2,479,131</u>
Excess (deficiency) of funds provided over funds applied	(4,464,585)	5,882,439
Working capital (deficiency), beginning of year	4,878,274	(1,004,165)
Working capital, end of year	<u>\$ 413,689</u>	<u>\$ 4,878,274</u>
Represented by:		
Current assets	\$ 2,397,172	\$6,050,308
Less current liabilities	<u>1,983,483</u>	<u>1,172,034</u>
	<u>\$ 413,689</u>	<u>\$ 4,878,274</u>

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

RADIO IWC LIMITED (formerly IWC Communications Limited)

1. Distribution of capital and corporate name change

On April 7, 1978, pursuant to shareholder resolution, the corporation:

- (a) capitalized \$2,811,548 of its retained earnings (which for tax purposes represented capitalization of 1971 capital surplus on hand);
- (b) distributed \$1.40 per common share (total \$10,145,851) to its shareholders as a repayment of capital;
- (c) consolidated its issued and unissued shares on the basis of one new share for each ten existing shares; and
- (d) changed its name to Radio IWC Limited.

2. Summary of accounting policies

The following summary of accounting policies of Radio IWC Limited ("IWC") and its subsidiaries is set forth to facilitate the understanding of data presented in these financial statements:

(a) Principles of consolidation –

The consolidated financial statements include the accounts of IWC and all of its subsidiaries, all of which are wholly-owned, and which at August 31, 1978 were as follows:

CFGM Broadcasting Limited
Sarnia Broadcasting (1964) Limited (see note 5)
Suburban York Sales Limited

During the 1978 fiscal year the shares of the three cable television subsidiaries were sold (see note 3). In addition, the radio division of the subsidiary Radio I.W.C. Inc. (formerly Radio CFOX Inc.) was sold early in the 1978 fiscal year (see note 4), and the remaining net assets of the subsidiary were transferred in August, 1978 to IWC. The results of operations of the aforementioned are included in the consolidated statement of income to the effective date of sale.

The excess of the purchase price of the shares and assets of the consolidated subsidiaries over the fair values assigned to their net tangible assets at dates of acquisition is included with other assets in the consolidated balance sheet. The corporation's policy is not to amortize this excess, which relates to acquisitions prior to 1974, so long as there is no evidence of impairment in value of such subsidiaries.

(b) Comparative figures –

The comparative figures for the 1977 fiscal year in the accompanying consolidated statements of income and changes in financial position have been reclassified from amounts previously reported in order to present separately operations discontinued in the 1978 fiscal year.

(c) Depreciation –

Depreciation is provided at rates and on bases designed to amortize the cost of fixed assets over their estimated useful lives, and for the ongoing radio division are as follows:

	Rate	Basis
Transmitter buildings, towers and equipment	10%	Straight-line
Studio and office equipment	20%-25%	Diminishing balance

Leasehold improvements are amortized on a straight-line basis over the term of the related lease.

(d) Deferred FM station development costs and CFGM frequency change costs –

Expenditures (other than on fixed assets) incurred in connection with the development of the corporation's FM station in Toronto ("CILQ") and CFGM's frequency change have been deferred and are being amortized on a straight-line basis over five and ten year periods respectively.

(e) Income taxes –

Deferred income taxes are provided on timing differences between accounting income and income for tax purposes. These differences arise because certain amounts claimed for tax purposes (mainly depreciation of fixed assets and amortization of deferred costs) are in excess of those written in the accounts.

3. Sale of investment in cable television subsidiaries

On January 31, 1978, IWC sold its investment in its wholly-owned cable television subsidiaries, Terra Communications Limited, Barrie Cable TV Limited and Orillia Cable TV Limited, at a gain, net of related income taxes, of \$1,258,290. Such gain is included as an extraordinary item in the consolidated statement of income for the 1978 fiscal year.

In partial satisfaction of the sale price, IWC took back fully secured non-interest bearing notes due in instalments during 1978. The outstanding balance (\$1,520,000) of such notes receivable at August 31, 1978 is included, net of \$24,000 of imputed interest discount, with current assets in the accompanying consolidated balance sheet as at such date.

4. Sale of Radio CFOX radio operations

The sale of the Radio CFOX radio operations was completed on September 15, 1977. Full provision for the loss realized on disposal thereof was made as an extraordinary item in the statement of income for the 1977 fiscal year.

5. Agreement subsequent to August 31, 1978 to sell Sarnia Broadcasting (1964) Limited

Subsequent to August 31, 1978 IWC entered into an agreement to sell its investment in Sarnia Broadcasting (1964) Limited ("Sarnia Broadcasting"). The sale agreement is subject to the approval of the Canadian Radio-television and Telecommunications Commission (with hearings expected to be held in this connection during March, 1979), and can be cancelled by IWC in certain circumstances.

In the event that the sale is completed, IWC will receive aggregate cash proceeds of approximately \$1,400,000, and will realize a net-of-tax gain of approximately \$235,000 on the transaction.

The total assets of Sarnia Broadcasting included in the accompanying consolidated balance sheet at August 31, 1978 were \$1,143,797 (including \$749,325 excess of the purchase price of its shares over the estimated fair value of its underlying net tangible assets at date of acquisition by IWC), and its total liabilities so included were \$81,582. Gross revenues of Sarnia Broadcasting in the 1978 and 1977 fiscal years were \$887,673 and \$804,252 respectively, and, after interest payments of

\$49,400 in each year to IWC, its net income after income taxes was \$50,526 and \$53,986 respectively.

6. Fixed assets

Fixed assets as set out in the accompanying consolidated balance sheet are comprised as follows:

	August 31			
	1978		1977	
	Cost	Accumulated Depreciation	Net	Net
Land	\$ 321,113		\$ 321,113	\$ 320,615
Transmitter buildings, towers and equipment	1,619,962	\$ 680,122	939,840	920,806
Studio and office equipment	608,275	297,905	310,370	305,361
Cable television plant and equipment				3,232,704
Other, including leasehold improvements (net)	117,855	8,977	108,878	104,555
	<u>\$2,667,205</u>	<u>\$ 987,004</u>	<u>\$1,680,201</u>	<u>\$4,884,041</u>

7. Bank indebtedness

IWC has pledged the notes receivable taken back on its cable television division sale (note 3) as collateral security for its current bank indebtedness.

8. Share capital

(a) Share options –

Options to acquire a total of 26,600 shares of IWC granted previously to employees and officers were relinquished in the 1978 fiscal year.

(b) Restrictions on share transfers –

The board of directors of IWC may refuse to permit the registration of a transfer of any shares in the capital of the corporation that would, in the opinion of the directors, adversely affect the status of the corporation, or any subsidiary thereof, as a corporation eligible to obtain, maintain, amend or renew a licence to carry on a "Broadcasting Undertaking" (as that term is defined in the Broadcasting Act (Canada)).

9. Material commitments and contingent liabilities

(a) Lease obligations –

Minimum current net annual lease payments for premises aggregate \$65,900 with varying terms to 1997. Costs under non-cancellable leases and agreements for rental of radio transmission facilities currently aggregate approximately \$63,000 per annum, with terms to 1995.

Payment of certain of such latter costs may be deferred to future periods under the terms of the related agreements, and \$50,000 of such deferred payments are reflected as a "non-current obligation under lease" in the accompanying consolidated balance sheet at August 31, 1978.

(b) Contingent liability under premises lease –

The corporation is contingently liable for premises rentals of approximately \$28,000 per annum to April, 1985, under a lease agreement assumed by a third party.

10. Material subsequent event

Reference is made to note 5 concerning the agreement to sell IWC's interest in Sarnia Broadcasting (1964) Limited entered into subsequent to August 31, 1978.

11. Statutory information

Aggregate remuneration paid or payable to directors and senior officers (defined by The Business Corporations Act, Ontario, to include the five highest paid employees) of IWC amounted to \$365,000 in fiscal 1978 (1977 – \$410,900), including certain special retiring allowances in both 1978 and 1977.

